

**REPORT OF THE AUDIT OF THE  
PENDLETON COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2002**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**CRIT LUALLEN**  
Auditor of Public Accounts

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

The enclosed report prepared by Carpenter, Mountjoy & Bressler, PSC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2002.

We engaged Carpenter, Mountjoy & Bressler, PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Carpenter, Mountjoy & Bressler, PSC, evaluated the Pendleton County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in cursive script, reading "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PENDLETON COUNTY SHERIFF**

**For The Year Ended  
December 31, 2002**

Carpenter, Mountjoy & Bressler, PSC has completed the Pendleton County Sheriff's audit for the year ended December 31, 2002. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

Excess fees decreased by \$2,816 from the prior calendar year, resulting in excess fees of \$23,728 as of December 31, 2002. Revenues increased by \$45,996 from the prior year and disbursements increased by \$48,812.

#### **Report Comment:**

- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds.



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# Carpenter, Mountjoy & Bressler

*Certified Public Accountants and Consultants*

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
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Honorable Lark O'Hara, Pendleton County Sheriff  
Members of the Pendleton County Fiscal Court

## Independent Auditor's Report

We have audited the accompanying statement of receipts, disbursements, and excess fees of the County Sheriff of Pendleton County, Kentucky, for the year ended December 31, 2002. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the receipts, disbursements, and excess fees of the County Sheriff for the year ended December 31, 2002, in conformity with the modified cash basis of accounting.

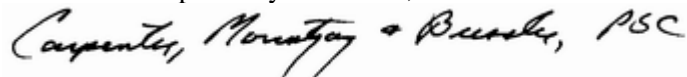
To the People of Kentucky  
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In accordance with Government Auditing Standards, we have also issued our report dated November 25, 2003, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in cursive script that reads "Carpenter, Mountjoy & Bressler, PSC".

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 25, 2003

PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES

For The Year Ended December 31, 2002

Receipts

|  |    |               |         |
|--|----|---------------|---------|
| Federal Grants (Note 6)                          |    | \$            | 45,792  |
| State Fees For Services:                         |    |               |         |
| Finance and Administration Cabinet               | \$ | 7,192         |         |
| Kentucky Law Enforcement Foundation Program Fund |    | 15,389        |         |
| Transporting Prisoners                           |    | <u>2,182</u>  | 24,763  |
| Circuit Court Clerk:                             |    |               |         |
| Sheriff Security Service                         |    |               | 8,537   |
| Fiscal Court                                     |    |               |         |
| Transporting Prisoners                           | \$ | 70,591        |         |
| Uniforms for Jail Transport Officers             |    | 1,069         |         |
| Vehicle Lease                                    |    | <u>14,718</u> | 86,378  |
| County Clerk - Delinquent Taxes                  |    |               | 5,145   |
| Commission On Taxes Collected                    |    |               | 139,234 |
| Fees Collected For Services:                     |    |               |         |
| Auto Inspections                                 | \$ | 3,027         |         |
| Accident and Police Reports                      |    | 289           |         |
| Serving Papers                                   |    | 15,988        |         |
| 10% Add On Fee                                   |    | 20,842        |         |
| Advertising                                      |    | <u>609</u>    | 40,755  |
| Other:   |    |               |         |
| Carrying Concealed Deadly Weapon Permits         | \$ | 5,010         |         |
| Maintenance Fund                                 |    | 5,720         |         |
| Delinquent Taxes                                 |    | 379           |         |
| Miscellaneous                                    |    | <u>145</u>    | 11,254  |
| Interest Earned                                  |    |               | 2,734   |
| Borrowed Money:                                  |    |               |         |
| State Advancement                                | \$ | 63,100        |         |
| Bank Note  |    | <u>7,702</u>  | 70,802  |
| Total Receipts                                   |    | \$            | 435,394 |

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY  
 LARK O'HARA, COUNTY SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND EXCESS FEES  
 For The Year Ended December 31, 2002  
 (Continued)

Disbursements

Operating Disbursements and Capital Outlay:

Personnel Services-

|                    |    |         |
|--------------------|----|---------|
| Deputies' Salaries | \$ | 136,818 |
| Part-Time Salaries |    | 5,000   |
| Other Salaries     |    | 65,975  |

Contracted Services-

|             |  |     |
|-------------|--|-----|
| Copier      |  | 541 |
| Advertising |  | 508 |

Materials and Supplies-

|                               |  |       |
|-------------------------------|--|-------|
| Office Materials and Supplies |  | 7,127 |
| Uniforms                      |  | 3,932 |
| Car Phones and Pagers         |  | 6,123 |
| Ammunition                    |  | 271   |

Other Charges-

|  |  |       |
|--|--|-------|
| Conventions and Travel                   |  | 664   |
| Dues                                     |  | 336   |
| Fiscal Court (Serving Papers)            |  | 5,720 |
| Postage                                  |  | 882   |
| Transport Prisoners                      |  | 1,031 |
| Carrying Concealed Deadly Weapon Permits |  | 3,390 |
| Court Ordered Payments                   |  | 90    |
| Training                                 |  | 424   |
| Miscellaneous                            |  | 322   |

Auto Expense-

|                         |  |        |
|-------------------------|--|--------|
| Gasoline and Transport  |  | 13,722 |
| Maintenance and Repairs |  | 8,019  |

Capital Outlay-

|        |  |       |
|--------|--|-------|
| Radios |  | 2,922 |
|--------|--|-------|

Debt Service:

|                   |    |         |
|-------------------|----|---------|
| State Advancement |    | 63,100  |
| Notes             |    | 7,772   |
| Vehicle Lease     |    | 14,718  |
|                   | \$ | 349,407 |

|                         |    |        |
|-------------------------|----|--------|
| Net Receipts            | \$ | 85,987 |
| Less: Statutory Maximum |    | 62,259 |

|  |    |        |
|--|----|--------|
| Excess Fees Due County for 2002                  | \$ | 23,728 |
| Payments to County Treasurer - December 31, 2002 |    | 23,728 |

|                                    |    |   |
|------------------------------------|----|---|
| Balance Due at Completion of Audit | \$ | 0 |
|------------------------------------|----|---|

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2002

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2002.

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent for the first six months of the year and 6.34 percent for the last six months of the year. Hazardous covered employees are required to contribute 8.0 percent of their salary to the plan. The county's contribution rate for hazardous employees was 16.28 percent.

PENDLETON COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2002  
(Continued)

Note 2. Employee Retirement System (Continued)

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2002, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Lease

On September 1, 2000, the Pendleton County Sheriff entered into a 36 month lease-purchase agreement with the Ford Motor Company for two 2000 Ford Crown Victoria Police Sedans. The agreement calls for three annual payments of \$14,923 due each September 1, with the first payment paid on September 1, 2000, and the last payment paid on September 1, 2002.

Note 5. Federal Grants

The Pendleton County Sheriff's Office received two federal grants. The first grant was a COPS Universal Hiring Grant. The purpose of this grant is to pay a portion of the salary of one full time officer. The total award amount was \$61,074. The grant period for this grant is May 1, 1999 through April 30, 2002. The total received and expended during calendar year 2002 was \$10,528. The Pendleton County Sheriff's Office also received a COPS in School Grant. The purpose of this grant is to pay the salary of one full time officer to be deployed into the school. The total award amount was \$106,763. The total received and expended during 2002 was \$35,264.

COMMENT AND RECOMMENDATION



PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2002

INTERNAL CONTROL - REPORTABLE CONDITIONS:

Lacks Adequate Segregation Of Duties

We noted the lack of an adequate segregation of duties for the internal control structure and its operation that in our judgment is a reportable condition under standards established by the American Institute of Certified Public Accountants. Due to the entity's diversity of official operations, small size, and budget restrictions the official has limited options for establishing an adequate segregation of duties. Management has considered and rejected additional cost when setting budget limits on spending for salaries and therefore accepts the degree of risk for lack of an adequate segregation of duties.

The following are some compensating controls which could offset a lack of adequate segregation of duties:

1. Strong and direct supervision by the official over receipts
  - Cash recounted and deposited by the official
  - Surprise cash counts by the official
  - Reconciliation of other monthly reports to source documents and receipts and disbursement ledgers
2. Strong and direct supervision by the official over disbursements
  - All disbursement checks to be signed by two people, with one being the official
  - Official examines payroll checks prepared by another employee and distributes checks to employees
  - Other disbursement checks prepared by another employee are examined by the official for proper documentation
  - Official mails disbursements
3. General Assets
  - Employees are cross-trained
  - Employees are required to take mandatory vacations
  - Official prepared bank reconciliations

*County Sheriff's Response:*

*No response noted.*

PENDLETON COUNTY  
LARK O'HARA, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION  
For The Year Ended December 31, 2002  
(Continued)

PRIOR YEAR:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$206,617 To Protect Deposits

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*This comment has been corrected and is not repeated in the current year.*

Sheriff's Office Should Perform All Auto Inspections And Collect The Appropriate Fee For Serviced Provided

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*This comment has been corrected and is not repeated in the current year.*

Lacks Adequate Segregation Of Duties

*This comment has not been corrected and is repeated in the current year.*

REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





*Certified Public Accountants and Consultants*

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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Pendleton County Sheriff for the year ended December 31, 2002, and have issued our report thereon dated November 25, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's financial statement for the year ended December 31, 2002, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However we noted a certain matter involving the internal control over financial reporting and its operations that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

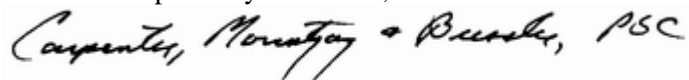
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financials statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink that reads "Carpenter, Mountjoy & Bressler, PSC". The signature is written in a cursive, flowing style.

Carpenter, Mountjoy & Bressler, PSC

Audit fieldwork completed -  
November 25, 2003

